

CENTERVILLE MUNICIPAL WATERWORKS
CENTERVILLE, IOWA

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2020

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CENTERVILLE MUNICIPAL WATERWORKS

OFFICIALS

(BEFORE AUGUST 2019)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bill Milani	Chairperson	August, 2022
Cindy Sherrard	Vice Chair	August, 2021
Bev Jewitt	Trustee	August, 2023
Glenn Moritz	Trustee	August, 2020
Ryan Stober	Trustee	August, 2019

(AFTER AUGUST 2019)

Bill Milani	Chairperson	August, 2022
Cindy Sherrard	Vice Chair	August, 2021
Bev Jewitt	Trustee	August, 2023
Glenn Moritz	Trustee	August, 2020
Ryan Stober	Trustee	August, 2024

Centerville Municipal Waterworks



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Centerville Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Centerville Municipal Waterworks, Centerville, Iowa (Waterworks), as of and for the year ended June 30, 2020, and the related Notes to Financial Statement listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Waterworks' preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the Waterworks as of June 30, 2020, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the Waterworks' financial statement. The supplementary information included in Schedules 1 through 2, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

The other information consisting of the Budgetary Comparison Information on pages 14 through 15 has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 8, 2021 on our consideration of the Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Waterwork's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC

March 8, 2021

Financial Statement

CENTERVILLE MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCE

As of and for the year ended June 30, 2020

Operating receipts:	
Charges for service	\$ 1,196,792
Miscellaneous	131,490
Total operating receipts	<u>1,328,282</u>
Operating disbursements:	
Business type activities	<u>1,134,479</u>
Total operating disbursements	<u>1,134,479</u>
Excess of operating receipts over operating disbursements	<u>193,803</u>
Non-operating receipts (disbursements):	
Intergovernmental	491,901
Interest on investments	615
Rental income	24,940
Loan proceeds	655,682
Sewer and storm water fees collected for City	1,316,100
Sewer and storm water fees remitted to City	(1,316,100)
Debt service	(26,016)
Capital outlay	<u>(1,088,044)</u>
Net non-operating receipts (disbursements)	<u>59,078</u>
Change in cash balance	252,881
Cash balance beginning of year	<u>822,941</u>
Cash balance end of year	<u><u>\$ 1,075,822</u></u>
Cash Basis Fund Balance	
Restricted for:	
Customer water deposits	\$ 103,322
Unrestricted	<u>972,500</u>
Total cash basis fund balance	<u><u>\$ 1,075,822</u></u>

See notes to financial statement.

CENTERVILLE MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2020

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Centerville Municipal Waterworks (Waterworks) is a component unit of the City of Centerville, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a five-member Board of Trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Restricted Fund Balance

Funds set aside for customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 2. Cash and Cash Equivalents

The Waterworks' deposits in banks at June 30, 2020 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Note 2. Cash and Cash Equivalents (continued)

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Note 3. Anticipation Project Note

On December 1, 2018, the Waterworks issued a Water Revenue Capital Loan Notes Anticipation Project Note to provide funds for construction costs for the waterworks system. The note was issued pursuant to Chapter 76.13 of the Code of Iowa and is payable from the anticipated proceeds of a loan from the United States Department of Agriculture (USDA). Pursuant to the note, the Waterworks may draw monies from this note provided the total amount outstanding at any one time does not exceed \$1,304,000. Each advance on the note bears interest at 3.50% per annum from the date advanced. The note will mature on December 1, 2020. During the year ended June 30, 2020, the Waterworks had drawn \$655,682 against the anticipation project note. During the year ended June 30, 2020, the Waterworks paid principal of \$0 and interest of \$26,016 on the note. The principal balance outstanding at June 30, 2020 was \$979,155.

Note 4. Risk Management

The City of Centerville is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The policy is in the City of Centerville's name; however, the Waterworks reimburses the City its share of the cost of the insurance policy. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 779 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Waterworks' property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The Waterworks' contributions to the Pool for the year ended June 30, 2020 were \$8,326.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

Note 4. Risk Management (continued)

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2020, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The Waterworks is also included under the City of Centerville's commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000 each accident, \$1,000,000 memo limit and \$1,000,000 each employee limit. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 5. Lease Agreements

The Waterworks is leasing antenna space on the water tower to Farmers Cellular Telephone Company, Inc. (tenant). This lease was entered into in February of 2009. The Waterworks received \$21,340 from this lease in fiscal year 2020. Unless the tenant decides to terminate the lease, the Waterworks has to continue to lease the antenna space to the tenant until 2029. After twenty years from the date of the lease, the Waterworks can then terminate this lease with the tenant by giving one year written notice of the date of such termination. As long as this lease is in effect, each year the base rent for this lease will be increased by 3% over the previous year's base rent.

The Waterworks is leasing antenna space on the water tower to Skybeam, Inc. (tenant). This lease was entered into in February of 2005. The Waterworks received \$3,600 from this lease in fiscal year 2020. Unless the tenant decides to terminate the lease, the Waterworks has to continue to lease the antenna space to the tenant until 2020.

Note 6. Water Purchase Contract

The Waterworks agreed to a forty year water purchase agreement with Rathbun Regional Water Association in July 2001. As part of this agreement, from July 2006 to the end of the forty year agreement, the Waterworks agreed to purchase a minimum of seven and one-half million gallons of water per month from Rathbun Regional Water Association. The Waterworks currently pays Rathbun Regional Water Association \$3.00 per thousand gallons for the first five million gallons of water purchased per month, \$1.70 per thousand gallons for the next ten million gallons of water purchased per month, and \$1.45 per thousand gallons in excess of fifteen million gallons of water purchased per month. Based on the minimum water purchase requirements of seven and one-half million gallons of water per month and based on current water rates, the Waterworks will be obligated to pay Rathbun Regional Water Association a minimum of \$231,000 per year for purchased water through the 2041 year.

Currently, the Waterworks buys all of its water for resale from the Rathbun Regional Water Association, and in fiscal year 2020, approximately 195,300,000 gallons of water were paid for by the Waterworks, at a total cost of \$406,196. The Waterworks does not have the capability to produce its own water for resale. It appears the only source of water available to the Waterworks is from Rathbun Regional Water Association.

Note 7. Contingency

The Waterworks participates in Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability of the Waterworks. The Waterworks management believes such revisions or disallowances, if any, will not be material to the Waterworks.

Note 8. Commitments

The Waterworks has entered into construction projects for water line repair and replacement, connection fees and demolition services. As of June 30, 2020, approximately \$555,000 remains to be paid on these projects. This work will be paid for as work progresses in fiscal year 2021. The City intends to pay for these projects from a community development block grant, from the anticipation project note as discussed in Note 3 above and from existing cash reserves.

At June 30, 2020, the City can borrow an additional \$324,845 from its anticipation project note. Monies from this anticipation project note will be used as financing in relation to costs associated with the water line repair and replacement project.

In fiscal year 2019, the Waterworks entered into a commitment to borrow \$1,750,000 of Water Revenue Capital Loan Notes from the United States Department of Agriculture. As of June 30, 2020, no monies have been received from this note. It is anticipated the Waterworks will obtain the money from this note in fiscal year 2021.

Note 9. COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the Waterworks, remains uncertain. To date, the outbreak has not created a material disruption to the operations of the Waterworks. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the Waterworks operations and finances.

Note 10. Subsequent Events

The Waterworks has evaluated subsequent events through March 8, 2021, which is the date that the financial statement was available to be issued.

Note 11. Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 87, Leases. This statement will be implemented for the fiscal year ending June 30, 2021. The revised requirements of this statement require reporting of certain potentially significant lease liabilities that are not currently reported.

Other Information

CENTERVILLE MUNICIPAL WATERWORKS

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
BUDGET AND ACTUAL
OTHER INFORMATION

Year ended June 30, 2020

	Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts Original	Original to Net Variance
Receipts:					
Use of money and property	\$ 25,555	-	25,555	18,550	7,005
Intergovernmental	491,901	-	491,901	1,343,615	(851,714)
Charges for service	2,512,892	1,316,100	1,196,792	1,277,500	(80,708)
Miscellaneous	131,490	-	131,490	30,600	100,890
Total receipts	3,161,838	1,316,100	1,845,738	2,670,265	(824,527)
Disbursements:					
Business type activities	3,564,639	1,316,100	2,248,539	2,579,183	330,644
Excess (deficiency) of receipts over (under) disbursements	(402,801)	-	(402,801)	91,082	(493,883)
Other financing sources, net	655,682	-	655,682	-	655,682
Change in fund balances	252,881	-	252,881	91,082	161,799
Balance beginning of year	822,941	-	822,941		
Balance end of year	\$ 1,075,822	-	1,075,822		

See accompanying independent auditor's report.

CENTERVILLE MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2020

The Centerville Municipal Waterworks (Waterworks) prepares a budget on the cash basis of accounting for all funds except sewer and storm water fees collected for and remitted to the City and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Waterworks, on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year, there were no budget amendments.

During the year ended June 30, 2020, disbursements did not exceed the amount budgeted in the business type activities function.

Supplementary Information

CENTERVILLE MUNICIPAL WATERWORKS

Schedule 1

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2020

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Capital Loan Notes Anticipation Project Note, Series 2018	12/1/2018	3.50%	\$ 1,304,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
12/1/2018	\$ 323,473	655,682	-	979,155	26,016	-

See accompanying independent auditor's report.

CENTERVILLE MUNICIPAL WATERWORKS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Schedule 2

Year ended June 30, 2020

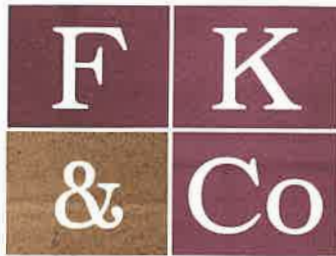
Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture: Water and Waste Disposal System for Rural Communities	10.760	N/A	\$ 952,680
Total direct			952,680
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Economic Development Authority: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	17-WS-004	100,232
Total indirect			100,232
Total			\$ 1,052,912

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the Centerville Municipal Waterworks under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Centerville Municipal Waterworks, it is not intended to and does not present the financial position, changes in financial position or cash flows of the Centerville Municipal Waterworks.

Summary of Significant Accounting Policies - Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate - The Centerville Municipal Waterworks has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the
Centerville Municipal Waterworks:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the Centerville Municipal Waterworks, Centerville, Iowa (Waterworks), as of and for the year ended June 30, 2020, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement, and have issued our report thereon dated March 8, 2021. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Waterworks' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items I-A-20, I-B-20, I-C-20, I-D-20 and I-F-20 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items I-E-20 and I-G-20 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Waterworks Responses to the Findings

The Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC

March 8, 2021



FALLER, KINCHELOE & Co, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees of the
Centerville Municipal Waterworks:

Report on Compliance for Each Major Federal Program

We have audited the Centerville Municipal Waterworks, Centerville, Iowa (waterworks) compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the Waterworks' major federal program for the year ended June 30, 2020. The Waterworks' major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Waterworks' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Waterworks' compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Waterworks' compliance.

Opinion on the Major Federal Program

In our opinion, the Waterworks complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control Over Compliance

The management of the Waterworks is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Waterworks' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item III-A-20, we consider to be a material weakness.

The Waterworks' response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. The Waterworks' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Faller, Kincheloe & Co, PLC

March 8, 2021

CENTERVILLE MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2020

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statement prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statement.
- (c) The audit did not disclose any non-compliance which is material to the financial statement.
- (d) A material weakness in internal control over the major program were disclosed by the audit of the financial statement.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major program was CFDA Number 10.760 – Water and Waste Disposal System for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The Centerville Municipal Waterworks did not qualify as a low-risk auditee.

CENTERVILLE MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2020

Part II: Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

II-A-20 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Centerville Municipal Waterworks (Waterworks) financial statement.

Condition – The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person. Also, bank accounts are not reconciled by an individual who does not handle or record cash. Mail is opened by accounting personnel with access to the accounting records. In addition, the duties for maintaining accounts receivable are not separate from those of processing collections and deposits.

Cause – The Waterworks has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Waterworks ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Waterworks should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports.

Response – We will evaluate this and attempt to segregate duties as much as possible.

Conclusion – Response acknowledged.

II-B-20 Preparation of Financial Statement

Criteria - A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statement and accompanying notes to the financial statement by internal personnel of the entity.

Condition - As auditors, we were requested to draft the financial statement and accompanying notes to the financial statement. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause - We recognize that with a limited number of office employees, preparation of the financial statement and accompanying notes to the financial statement is difficult.

Effect - The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Waterworks. The outside party does not have the constant contact with ongoing financial transactions.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2020

Recommendation - We recommend that Waterworks officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances to enable staff to draft the financial statement and accompanying notes to the financial statement internally.

Response – These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with an other comprehensive basis of accounting.

Conclusion – Response acknowledged.

II-C-20 Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statement on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Waterworks financial statement.

Condition – Sewer and storm water monies collected by the Waterworks are recorded as a liability on the accounting system, instead of cash receipts and disbursements.

Cause – Waterworks policies do not require and procedures have not been established to provide for an independent review of receipts and disbursements to ensure the Waterworks financial statement is accurate.

Effect – Lack of Waterworks policies and procedures resulted in employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the Waterworks financial statement were necessary.

Recommendation – The Waterworks should establish procedures to ensure all receipts and disbursements are properly recorded.

Response – We will take the recommendations you have made under advisement and make changes to our procedures to ensure the accuracy of the Waterworks accounting records.

Conclusion – Response acknowledged.

II-D-20 Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to reconciling utility billings, collections and delinquent accounts to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent accounts.

Condition – Although the Waterworks utility software generates monthly reports of utility billings, collections and delinquent accounts, the amounts are not reconciled from month to month.

Cause – Policies have not been established and procedures have not been implemented to ensure monthly utility billings, collections and delinquent accounts are reconciled each month to the Waterwork's financial and utility billing records.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2020

Effect – Inadequate reconciliations can result in unrecorded or misstated utility receipts and improper or unauthorized adjustments and write-offs.

Recommendation – The Waterworks should ensure all amounts on the reconciliations of utility billings, collections and delinquent accounts are properly supported.

Response – The Waterworks will ensure utility reconciliations are properly supported and reviewed.

Conclusion – Response acknowledged.

II-E-20 Meter Deposits

Criteria – An effective internal control system provides for reconciling the dollar value of meter deposits on hand with the cash balances as recorded in the meter deposit account.

Condition - There is no reconciliation of the dollar value of the detailed list of meter deposits on hand with the cash balance in the meter deposit account.

Cause – Policies and procedures have not been implemented to ensure the Waterworks reconciles the dollar value of the detailed list of meter deposits on hand with the cash balance in the meter deposit account.

Effect - Inadequate reconciliations can result in unrecorded or misstated utility receipts and improper or unauthorized adjustments and write-offs.

Recommendation – The Waterworks should implement procedures to ensure the meter deposit amounts by customer are identified. In addition, the listing of meter deposit amounts on hand, by customer, should be reconciled to the meter deposit cash total as recorded on the accounting system on a monthly basis.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

II-F-20 Monthly Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to reconciling monthly financial reports to all bank accounts.

Condition – Although monthly bank reconciliations were prepared, the reconciliations included inaccurate reconciling items. These inaccurate reconciling items primarily consisted of the dollar amount of non-sufficient funds checks. The dollar amount of non-sufficient funds checks should not be a reconciling item at June 30, 2020 since the customers paid the Waterworks in cash in fiscal year 2020 to cover these non-sufficient funds checks.

Cause – Policies have not been established and procedures have not been implemented to ensure an accurate bank reconciliation is prepared.

Effect – Lack of maintaining accurate bank reconciliations could result in undetected errors or unauthorized activity.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2020

Recommendation – The Waterworks should establish procedures to ensure accurate bank account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

II-G-20 Water Purchases – The Waterworks purchases all of its water from Rathbun Regional Water Association to provide water to residents. The Waterworks is responsible for reading residents meters, monthly billings and collections. While the Waterworks does compare the gallons of water purchased by the Waterworks to the gallons of water sold to its customers, the numbers used in this analysis do not appear to be accurate. This data may be useful to help the Waterworks obtain grants, to help identify potential unauthorized use of water services and to identify if there is a problem with water leaks in the City.

Recommendation – The Waterworks should implement procedures to ensure the numbers used to compare gallons of water purchased to the gallons of water billed are accurate.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CENTERVILLE MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2020

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.760: Water and Waste Disposal System for Rural Communities

Federal Award Year: 2018

Prior Year Finding Number: N/A

U.S. Department of Agriculture

III-A-20
(2020-001)

Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Centerville Municipal Waterworks (Waterworks) financial statement.

Condition – Generally, one or two individuals in the Waterworks has control over cash receipts listings, bank deposits and posting cash receipts to the cash receipts journal.

Cause – The Waterworks has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Waterworks ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Waterworks should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports.

Response and Corrective Action Planned – We will evaluate this and attempt to segregate duties as much as possible.

Conclusion – Response acknowledged.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2020

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-20 Certified Budget – The budget certified by the City of Centerville includes an amount for the Centerville Municipal Waterworks (Waterworks). Disbursements during the year ended June 30, 2020 did not exceed the amount budgeted.

IV-B-20 Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-20 Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.

IV-D-20 Business Transactions - Business transactions between the Waterworks and Waterworks' officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Ryan Stober, Board Member Owner of Centerville Produce	Supplies	\$ 251

In accordance with Chapter 362.5 of the Code of Iowa, these transactions do not appear to represent a conflict of interest since total transactions were less than \$6,000 during the fiscal year.

IV-E-20 Restricted Donor Activity – No transactions were noted between the Waterworks, Waterworks officials, Waterworks employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

IV-F-20 Bond Coverage – Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

IV-G-20 Board of Trustee Minutes – No transactions were found that we believe should have been approved in the trustee minutes but were not.

IV-H-20 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the investment requirements were noted.

IV-I-20 Revenue Bonds/Notes – No instances of non-compliance with the revenue bond/note resolutions were noted.

IV-J-20 Sales Tax – The Waterworks has not analyzed its receipts to determine if they are properly collecting sales tax on all items, such as collecting sales tax on utility flat fee amounts, meter charges, turn on and turn off fees and other charges. The Waterworks does not currently charge and remit sales taxes on the above charges.

Recommendation – The Waterworks should analyze its receipts to determine if they are properly collecting sales tax on all items.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2020

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

IV-K-20 Ordinances and Waterworks Structure – While the residents of the City voted for and approved the creation of a Board of Trustees in 1948 to manage the Waterworks, the City has no ordinance which defines the duties and responsibilities of the Board of Trustees.

Recommendation – The Waterworks should work with the City to establish a City ordinance which defines the duties and responsibilities of the Board of Trustees.

Response – We will work on implementing this recommendation.

Conclusion – Response acknowledged.

IV-L-20 Utility Rates – Chapter 384.84 of the Code of Iowa requires that water rates be established by resolution of the trustees, published in the same manner as an ordinance. The Waterworks increased its water utility rates in fiscal year 2018. However, the resolution increasing the water rates was not published as required by the Code of Iowa.

Recommendation – The Waterworks should establish all water rates by resolution and publish them in the same manner as an ordinance, as required by the Code of Iowa.

Response – This was all resolved beginning in October 2019 with the new rates being published on October 17, 2019.

Conclusion – Response acknowledged.

IV-M-20 Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The Waterworks did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

Recommendation – Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

IV-N-20 Reconciliations – To fund a construction project, the Waterworks received loan and grant funds from the bank and from the Community Development Grant Program. In some instances, Waterworks personnel were unable to reconcile the receipt requests with the specific invoices incurred on the construction project. As a result, the Waterworks was unable to determine if they received the proper amounts of funds from the loan and grant.

Recommendation – The Waterworks implement procedures to ensure the dollar amount of receipt requests on loans and grants match up with specific invoices incurred on the construction project.

Response – We have partially implemented this recommendation. In relation to the USDA monies, this issue was corrected in fiscal year 2020. In relation to the CDBG monies, this issue will be resolved in fiscal year 2021.

Conclusion – Response acknowledged.

CENTERVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2020

IV-O-20 Public Improvements – No evidence could be located that the Waterworks complied with Chapter 26.3 of the Code of Iowa in relation to the plant facilities demolition project. Specifically, no evidence could be located that the Waterworks posted the notice to bidders on an internet site sponsored by either a governmental entity or a statewide association that represents the governmental entity, as required pursuant to Chapter 26.3 of the Code of Iowa.

Recommendation – In the future, the Waterworks implement procedures to ensure compliance with Chapter 26.3 of the Code of Iowa.

Response – This was an oversight on our part. We will implement this recommendation on future projects.

Conclusion – Response acknowledged.